

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY
FOR
TREASURY INFLATION PROTECTED SECURITIES PROGRAM**

May 12, 2008

This policy is effective immediately upon adoption and supersedes all previous Treasury Inflation Protected Securities Program policies.

I. PURPOSE

The CalPERS Total Fund Statement of Investment Policy adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS' overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("Policy") for the Treasury Inflation Protected Securities Program ("TIPS Program"). The design of this Policy ensures that investors, managers, consultants, and other participants selected by the California Public Employees' Retirement System ("CalPERS") take prudent and careful action while managing the TIPS Program. Additionally, use of this Policy assures sufficient flexibility in controlling investment risks and returns associated with the TIPS Program.

II. STRATEGIC OBJECTIVE

The TIPS Program shall be managed to accomplish the following:

- A. Diversify CalPERS overall investment programs;
- B. Dampen the overall risk of CalPERS' investment programs; and
- C. Enhance CalPERS' total returns.

III. RESPONSIBILITIES

- A. CalPERS' Investment Staff ("Staff") is responsible for the following:
 - 1. All aspects of portfolio management including monitoring, analyzing, and evaluating performance relative to the appropriate benchmark.
 - 2. Reporting quarterly on the performance and risk metrics for the TIPS Program to the Committee.

3. Monitoring internal and external managers in the implementation of, and compliance with, the Policy. Staff shall report concerns, problems, material changes, and all violations of Policy at the next Committee meeting, or sooner if deemed necessary. These reports shall include explanations of the violations and appropriate recommendations for corrective action.

- B. The General Pension Consultant ("Consultant") is responsible for:

Monitoring, evaluating and reporting at least annually, to the Committee, on the performance of the TIPS Program relative to the benchmark and Policy.

- C. For those TIPS Programs managed by an External Manager(s) ("Manager(s)"), the Manager is responsible for all aspects of portfolio management and shall also fulfill the following duties:

1. Communicate with Staff as needed regarding investment strategy and investment results;
2. Monitor, analyze, and evaluate performance relative to the agreed upon benchmark; and
3. Cooperate fully with CalPERS' Staff, Custodian, and Consultant concerning requests for information.

IV. PERFORMANCE OBJECTIVE AND BENCHMARK

The performance objective for the TIPS Program is to exceed the return of the benchmark.

The benchmark for the TIPS Program is the Lehman Total U.S. TIPS Index.

V. INVESTMENT APPROACHES AND PARAMETERS

- A. Investment Approach

Investors in TIPS seek protection from future inflation and have made a specific asset allocation for this purpose. For this reason, the TIPS Program shall be principally invested in TIPS. In general, the TIPS Program is expected to have a duration that is similar to the duration of the Lehman Total U.S. TIPS Index unless expected returns and economic analysis dictate otherwise. Staff will identify those issues in the universe of TIPS which offer the best returns while maintaining the TIPS Program duration objective.

B. Specific Risk Parameters

CalPERS shall manage the following major categories of fixed income risk:

1. Benchmark Risk was reviewed by the Consultant who determined that the Lehman Total U.S. TIPS Index was the appropriate reference point.
2. Interest Rate Risk must be controlled using duration management. Duration shall be maintained within $\pm 10\%$ of benchmark duration.
3. Real Return Risk must be monitored and managed through economic analysis that, at a minimum, looks at volatility, expected inflation, and implied inflation.
4. Yield Curve Risk must be managed in a controlled and disciplined way by monitoring key rate durations and principal component analysis.
5. Sector Risk must be controlled by using the ranges below.

Sector Ranges: The following ranges by which actual allocations can fluctuate from the benchmark sector weightings:

Sector	Index	Sector Ranges
TIPS	100%	80%-100%
Nominal US Treasury	0%	0%-15%
STIF	0%	0%-5%
Total	100%	NA

C. Authorized Securities

1. U.S. Treasury Inflation Protected Securities;
2. Nominal (not Inflation Protected) U.S. Treasury Securities; and
3. A Short Term Investment Fund (STIF).

VI. CALCULATIONS AND COMPUTATIONS

Investors, managers, consultants, and other participants selected by CalPERS shall make all calculations and computations on a market value basis as recorded by CalPERS' Custodian.

VII. GLOSSARY OF TERMS

Key words used in the policy are defined in CalPERS' Master Glossary of Terms.

Treasury Inflation Protected Securities:

Approved by the Policy Subcommittee: June 15, 2007

Adopted by the Investment Committee: August 13, 2007

Name changed to Treasury Inflation Protected Securities Program:

Revised by the Policy Subcommittee: April 21, 2008

Approved by the Investment Committee: May 12, 2008

Asset Class Glossary: Global Fixed Income
Policy: Treasury Inflation Protected Securities Program
May 12, 2008

Benchmark Risk

Benchmark Risk addresses whether the index chosen is the appropriate reference point for the program in question.

Custodian

A bank or other financial institution that provides custody of stock certificates and other assets of an institutional investor.

General Pension Consultant

An individual or organization that provides specialized professional assistance to the Investment Committee in determining the pension fund's asset allocation model or optimal combination of investments in order to maximize risk-adjusted investment returns in a manner consistent with the State's long-term pension liabilities.

Interest Risk Rate

Interest Risk Rate is the price volatility produced by changes in the overall level of interest rates as measured by an option-adjusted duration.

Principal Component Analysis

A method that measures the movements of the yield curve in terms of three main factors: level, slope, and curvature.

Real Return Risk

Real Return Risk is the price volatility produced by changes in market inflation expectations.

Sector Risk

Sector Risk is the risk of holding sectors proportionally different from the index.

Yield Curve Risk

Yield Curve Risk is the price changes induced by the changing slope of the yield curve.